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# Objective and Subjective Responsibility in Business Sustainability

## Abstract

This paper presents the distinction between objective responsibility – determined by social norms – and subjective responsibility – as a feeling and an attitude of an individual subject. The paper argues that both types of responsibility are necessary for the well functioning of businesses or social production and considers two consequences of the distinction for business sustainability. The first consequence comes through the interpretation of markets as systems to organize objective responsibility and the requirements this interpretation poses to attain the triad of economic, environmental and social sustainability. The second consequence considers firms as partnerships of participants as the most appropriate contractual form to acknowledge and foster subjective responsibility in the frame of the triad.

## Keywords

business sustainability, business sustainability theory, responsibility and business sustainability, markets and responsibility, democratic firm

## 1. Introduction

Responsibility is a key factor in any organizational culture. Most of its treatment in business sustainability comes under the header of corporate social responsibility (van Marreijk, 2003; Salzmänn, Ionescu-Somers, & Steger, 2005). A general discussion of responsibility and businesses can be found in (Stahl, 2005). In this paper, I deal with the responsibility issue in the perspective of subjective individual responsibility versus objective responsibility, i.e., as an attitude taken by each person with regard to the organization she or he is in versus a set of social norms that define the things by which the person or the organization is liable.

To this aim, I observe that the word responsibility can be interpreted in two ways: the objective one, where individual responsibility is defined by social punishments or rewards of behaviors; and the subjective one where social punishments or rewards are irrelevant because one *feels* responsible – towards oneself or towards others –, rather than one *being* responsible. This is discussed in section 2. One notes that objective responsibility can be assigned either to an individual person or to a collective of persons. In this paper, one will understand such a collective as being an organization.

In section 3, I will argue that both subjective and objective responsibility are necessary for business and organizations to operate – independently of one speaking of organizations in general or businesses in particular. Subjective and objective responsibility being dual, it would be an error to see them as opposed. Rather, they should be conceived as complimentary.

The paper then proceeds to explore two consequences of recognizing the need for both objective and subjective responsibility. In section 4, I observe that businesses must operate in markets and markets can be understood as being organized around a principle of setting the objective

responsibility of businesses in providing goods and services. Yet, this organizing principle does not necessarily set sustainability goals in the scope of objective responsibility. This must be additionally set either through the subjective responsibility of buyers in purchasing, through the subjective responsibility of people in businesses or through market regulations. Any is necessary for the objective responsibility of businesses to encompass sustainability goals in a way that makes these viable.

While markets are external to organizations, in section 5, I look into businesses from an internal point of view. I observe that the prevalent employer versus employee relationship between businesses and individuals disconnects these ones from the economic results of businesses. In other words, it makes the relation between an individual subjective responsibility and the economic performance of the business indirect at most. Partnership or participatory contractual forms of the firm come out as most promising in acknowledging and fostering subjective responsibility in businesses.

This is a conceptual paper; therefore, in section 6, besides concluding, I indicate research topics that the dual interpretation of responsibility as objective and subjective suggests in the frame of business sustainability.

## 2. The objective and subjective interpretations of responsibility

Responsibility is usually referred in terms that define the responsible agent as being subject to punishment or reward as a function of their behavior. Sometimes, punishment or reward is not a function of behavior, but of behavior consequences.

In this interpretation, one understands responsibility being the state or fact of an agent incurring punishment, liability or blame as a result of the agent's behavior or of events considered causally connected to the agent's behavior. Punishment, liability or blame corresponds to degrees or characteristics of what can be generally considered a social action upon the agent. The social action has negative effects for the agent and it is exerted on the presumption of the agent's behavior having violated some norm, or having provoked, either directly or by lack of due diligence, some event that should not happen.

While punishment, liability and blame are negative outcomes associated with being responsible for something, one may want to consider also positive outcomes and call them reward. Getting a prize, a promotion or social recognition are examples that come to mind as a result of 'behaving responsibly'. One can even generalize the use of the 'reward' word and use 'positive reward' to refer to positive outcomes and 'negative reward' to refer to negative outcomes of the state or fact of being responsible.

This interpretation is objective because responsibility becomes defined by the reaction of the social environment to the agent's behavior or the supposed consequences of the agent's behavior. It completely ignores the agent's intentions, feelings or perceptions.

While this interpretation sees responsibility as objective, it is also unsatisfactory because it is possible 'to be responsible' just by following the rule: behave to avoid negative reward and to get positive reward. This rule does not square with our intuition about the full meaning of responsibility; the full meaning requires that one does not restrict responsible behavior to avoiding negative or seeking positive rewards.

To account for a wider interpretation, one understands responsibility being the state or fact of one behaving in accordance to a subjective sense, will or need to care about people or events affecting people, independently of possible and associated rewards.

This interpretation is subjective because responsibility becomes defined by the individual will and consequent attitude of caring about someone – eventually oneself – not by externally set rewards.

For ease of writing, the two interpretations will be referred from now on as objective and subjective responsibility. In fact, whenever one considers behavior for which the responsibility concept applies, usually both objective and subjective responsibility will be at play. As an example, one may consider the situation of driving a car. Laws and enforcing mechanisms will potentially or actually punish dangerous driving behavior. Yet, most people will drive carefully not only to avoid fines or accidents, but also because they are truly concerned about the security of other people on the road.

### 3. Objective and subjective responsibility inside organizations

We recognize that actions have consequences in a predictable way. This fact enables purposeful behavior and is at the origin of the responsibility concept. If actions could not be linked to consequences than the notion of responsible behavior would not make sense.

One can understand businesses and organizations as devices to coordinate individual actions into purposeful social behavior. To get effective coordination the responsibility notion must be at work. As it seems, if people would behave in a completely irresponsible way, so to speak, coordination and therefore organizations would disappear. In this section, I reflect on the necessity of both the objective and subjective components of responsibility for organizations to exist and prosper.

First, I observe that a system of responsibility exclusively based on objective responsibility would be unworkable as it is logically impossible. To see this, let us suppose that it would be the case. Therefore, the incentive to earn a reward or to escape a punishment, socially determined and enforced, would be the only determinants of people's behavior. This would raise an infinite recursion condition.

The infinite recursion condition comes from the fact that for some *A* to behave responsibly, some *B*'s must determine and enforce a reward, either positive or negative, acting on *A*. However, the actions of determining and enforcing the reward must themselves be performed responsibly for being effective. Therefore, some *C*'s must determine and enforce rewards, either positive or negative, acting on the *B*'s, giving rise to a logically necessary infinite recursion sequence.

The infinite recursion sequence can only be avoided – and it is actually avoided – by some *X* behaving responsibly in a subjective way, grounding the actions of determining and enforcing rewards for others. We conclude that for objective responsibility to work in a systemic way subjective responsibility is necessary and must therefore be present.

Second, I observe that a system of responsibility exclusively based on subjective responsibility appears practically impossible. To see this, let us suppose that one would try to implement such a system, relying exclusively on the subjective responsibilities of people. No rewards, either positive or negative, would be at stake.

Two questions arise for such system. The first is about every people being responsible in the minimal amount determining enough successful coordination of behavior. The second question is about the subjective responsibilities of people agreeing about what needs to be done. While it does not appear that it is logically impossible for subjective responsibilities to be enough intense and to be in enough agreement for successful coordination, it is clear that from a practical standpoint, in our actual world, that would not be the case.

From the above, it follows that a system of responsibility for organizations must consider both components of objective and subjective responsibility. Objective and subjective responsibility work well if they are complimentary, mutually reinforcing each other. Yet, such a relation does not happen automatically or 'by nature'. Actually, it often happens that objective and subjective responsibility are at odds, as when one risks punishment or blame because one behaves inside an organization as one feels one must behave.

Using the associated concepts is important in both the analysis and the design, in the wide sense, of organizations. It is important in analysis to clarify the objectivity and subjectivity of responsibilities that are implicit in the social arrangements enacting and governing organizations. It is important in design to obtain the outcome of objective responsibility reinforcing subjective responsibility. While one cannot command subjective responsibility, one can set objective responsibility so that it fosters subjective responsibility or that it provides the effect that subjective responsibility is not able to.

In the following sections, I analyze two questions relevant for business sustainability in this perspective.

### 4. Objective responsibility in markets

Markets can be understood as systems to impute responsibility to businesses according to their contribution to the common good (Ellerman, 2013). Building on this notion, one can interpret markets as (natural) systems setting objective responsibility along the following frame.

Let *Sales* be the amount of money resulting from the sales of a business during a given period. *Sales* can be interpreted as a social credit, numerically valued, given to the products delivered by the business to society. Let *Expenses* be the amount of money the business must pay for inputs provided by society to the business during the same period. One can interpret the value of *Sales* minus *Expenses* as the socially defined value of reward assigned to the business:

$$\text{Reward} = \text{Sales} - \text{Expenses}$$

The interpretation of *Reward* being positive is the business produces a value for society greater than the value it uses up as inputs. Likewise, if *Reward* is negative then the business uses up a value greater than it produces.

The fundamental principle for a business being economically sustainable in a market is that *Reward* shall not be negative along too many periods. If that is case, then the business will be dissolved or, at least, strongly reconfigured, so that after reconfiguration *Reward* becomes positive.

As per the framing above it may be clear for the reader that markets can be interpreted as systems to enforce the responsibility of productive organizations in an objective way. The presumption is that if an organization, i.e. a business, behaves irresponsibly, then society forces the organization to disappear or change behavior, by making the *Reward* signal negative.

Yet, the operation of markets as systems to enforce responsible behavior from producers can fail in a number of ways.

To begin with, one notes that, in a market, productive organizations are sellers. Buyers of what the organizations offer for sale – or their absence – provide the value of *Sales*, required to establish the reward signal. The enforcing of responsible behavior must come through buyers or their absence – and therefore depends on these ones and their relative power with respect to sellers. The following conditions appear as more or less obvious.

First, buyers can only dictate terms to sellers to the extent that there is a multiplicity of competing sellers or the products do not have a character of necessity. If that is not the case, the behavioral responsibility of sellers will be mainly set by their subjective responsibility.

Second, even if there is a multiplicity of competing sellers, the objective responsibility of them will be set by the subjective responsibility of buyers *qua* buyers. It is important to understand this in order to frame adequately the environmental and social purposes of business sustainability.

If buyers want, or cannot escape, a rush to maximum performance, minimum price products, at whichever environmental and social costs will be needed to have such products, then *that will be exactly* what the sellers (businesses) will deliver, as the result of behavioral forcing through the market mechanism.

It follows that for businesses to attain environmental and social sustainability goals, as commonly enunciated, some of the following three must happen:

- A vast majority of buyers decides to bear the total cost of products and force businesses to attain environmental and social goals, through the market mechanism.
- Businesses collude to meet environmental and social goals, irrespectively of buyers' behavior.
- Governments impose market regulations that constrain businesses to responsible environmental and social behavior consistently and equally for all businesses, irrespectively of buyers' behavior.

I note that the first two actually depend on subjective responsibility either of buyers or of people in businesses, while the last depends on subjective responsibility of people in government.

## 5. Subjective responsibility and the contractual form of the firm

If, inside businesses, objective responsibility would be made to correspond and reinforce subjective responsibility in a most direct way, then payment of people working in the business, therefore constituting the firm, should be made as some agreed and direct division of *Sales* minus *Expenses*.

It is important to point that *Expenses* are interpreted as payments outside the firm and 'the firm' is interpreted as all people that work in the business. Therefore, *Sales* minus *Expenses*, or the *Reward* signal defined above, will evaluate the contribution of all people working in the business to the common good under market rules defining objective responsibility for the business.

That is not the case for the majority of businesses. The prevalent contractual relation in businesses is that 'capital hires labor': the business is an employer and people are employees (Ellerman, 2014). Payment of employees or 'labor' is accounted in *Expenses* and is set by relations described as 'the labor market'.

Therefore, this arrangement sets the objective responsibility of people with respect to the businesses they work in through market relations. The type of limitations referred in the previous section for markets also apply here. The objective responsibility of people, with respect to the businesses they work in, relates only indirectly to their subjective responsibility and it can be compromised in a number of ways.

The root cause for this state of affairs lies on the employer versus employee relationship and the associated absentee ownership, or the so-called separation between ownership and control (Simon, 1995). People working in a business in the role of employees *are not* considered to be in the firm. People not working in a business but bearing the role of employers, as owners, *are* considered to be in the firm. Would we find a greater disconnect between organizational objective and subjective responsibility, were we to deliberately engineer one?

The solution to the problems originated by this state of affairs can be simply described in words. The employer versus employee relationship must be progressively extinguished by extending a contractual relation of partnership to, in principle, all people in the firm. Such move presents the best prospects for setting objective responsibility in a way that fosters subjective responsibility in businesses.

## 6. Conclusions and topics of future research

This paper presents the dual concepts of objective and subjective responsibility as shorthand for the objective and subjective interpretations of responsibility.

The paper observes that both types of responsibility are needed for the operation of organizations and it analyzes two business sustainability questions in the perspective of reinforcing objective and subjective responsibility. Two general conclusions can be taken from the analysis.

With regard to environmental and social sustainability, it was suggested that governments have a role to play that cannot be practically substituted by businesses or buyers.

With regard to economic sustainability, it was suggested that an increasing knowledge of market limitations and organizational responsibility dynamics should lead to an increasing number of businesses becoming partnership firms.

The following lines of future research can be pointed:

- To assess, in concrete cases, the extent of subjective responsibility in the behavior of people;
- To assess, in concrete cases, how framing rules for objective responsibility can lead to diminishing subjective responsibility or, at the contrary, can foster it;
- To develop the interpretation of markets as responsibility setting systems.

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